Selective Forex Trading: How to Achieve Over 100 Trades in a Row Without a Loss
By Don Snellgrove
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APPENDIX B

A Mechanical and Nonemotional Style of Trading for Part-Time Traders

One of the greatest challenges for any trader is learning how to trade without experiencing the emotional stress of failed trades. Even when traders enter what seems to be a legitimate trade, it will occasionally go bad almost immediately. The most common reaction of an emotional trader is to just stare at the screen hoping that the trade will become positive. The correct procedure is to exit the trade based on a personal stop tolerance and then implement a plan to either reenter the trade as a cost-average entry or flip the position in order to take back the lost profits.

But what about part-time traders who need both to manage their emotions and to have a strategy that allows them to trade on a very compressed time frame? I have created a mechanical procedure for very busy people. To follow is a written explanation of this strategy. I have also included a second simple trade that I hope will increase your odds of success.

THE STRATEGY

Entries and Limits

When I am not available to monitor trades, I trade only $JPY and EURJPY combinations because I find the rate of success to be higher than for other combos using this strategy. I enter at least two separate entries each time a trade signal sounds. Trade one is for 20 pips of profit per lot, as is trade two; however, if I am close to a computer and the market is approaching the limit, then I remove the limit order for the second entry and let it ride.

One great aspect of this trade is that it provides immediate gratification—allowing one to more easily hold on to the longer-duration trade. When entry one exits with 20 pips of profit, the positive emotion justifies your being a little more relaxed about the second trade. When the first trade exits, I move my stop to zero (even) or 1 pip of profit on the second trade. This reduces exposure and risk.

In my experience, number two trade entries have often reversed, giving me only 1 pip per lot of profit. But that is better than losing money. Also, when these trades work out and miss the stop, it is wonderful to see the trade go 30, 40, and even 50 plus pips higher. Now the exit becomes the reversal ROI X that you originally based the trade entry on. Bottom line: If I am unable to remove the trade two limit because I am away from the computer, then I have two winning trades for a total of 40 pips per lot.

A Third Trade

When a signal appears in the direction of the overall trend after a major reversal is completed, I will also enter a third trade. With this trade, I have no emotional ties because I plan to make my profits from the first two entries as just described. I often find that it is emotion that drives the exit of the second trade—caused by not wanting to lose all of those fresh profits. Therefore, the third entry, which I refer to as the "I don't care trade," just moves into the world's money. I let it run until the four-hour ROI X acts as a reversal. This same strategy can be used on larger time compressions for long-term trades.

Stops

I use the automated R3/S4 found on SmartCharts to evaluate the closest support or resistance, depending on the direction of the trade. Also, the Fibonacci levels may influence the placement of a stop. As an example, assume you are trading down; if a R3 resistance is close to a .50 or .382 level from a previous trading range, then I would consider placing the stop above both the resistance and the Fib line as long as it is above the R3. Now, let's add something else to the equation: What about clusters? If a cluster is located in about the same area, then I would consider this as a confirmation. Also, one other point: Always check the river line. If using SmartCharts, then the river line is found within the flow of the candlesticks, acting similarly to a slow-moving average line indicator. If this line is above the adversity in the market as it is going against your entry, then you want to be above that line as well.

See Figures B.1 through B.19.

CFGSmartChart Version 3.64 - [USDCHF 30 Min]
File Last Message Turn Dn Targets On Turn Up Targets On Turn All Targets On RCU On TBar Study On Smart Signals
1.1900
1.1875
1.1850
1.1825
74 Pips
ST
30
ROI
.686
.510
09/10/07 12:00:00 PM - 09/13/07 9:30:00 AM
05:30 P.M. 01:30 A.M. 09:30 A.M. 05:30 P.M. 01:30 A.M. 09:30 A.M. 05:30 P.M. 01:30 A.M.
Local Server

FIGURE B.1 USDCHF ST: This 30-minute time compression illustration offers an ST (sore thumb) with ROI confirmation regarding direction, but will be short-lived due to the downward curl that is about to occur. The ST gave a range of approximately 74 pips before danger signs of a pullback. The upper ST, as illustrated with an agreeing ROI, is about to occur very soon. The down entry in the near future will have to be delayed until the ROI has turned down. Depending on present overall trend, a possible entry may be considered if agreement with an overall down trend as determined by much larger compressions.

CFGSmartChart Version 3.64 - [EURCAD 2 Hr]
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G-METER 45
R A
1.4590
1.4490
1.4390
1.4290
ST
107 Pips
2Hr
ROI
.619
.798
07/12/07 2:00:00 AM - 07/27/07 8:00:00 AM
00:00 A.M. 04:00 A.M. 12:00 P.M. 08:00 P.M. 04:00 A.M. 08:00 A.M. 04:00 P.M. 00:00 A.M.
Local Server

FIGURE B.2 EURCAD ST: This two-hour chart illustrates an ST on the top side with an ROI agreement going down. The entry is the next candle open as long as the ROI is fresh and wide, which implies that heavier volume is present. The market moved down approximately 107 pips, as illustrated by a dark bear candle. It then pulled back, forming a new ST on the bottom side, which is not seen in the illustration; however, for the ST to form, we know that a dark candle formed almost to the bottom low within the two-hour time period. The assumption now is that when the ROI crosses up, after maybe two or three more candles have appeared, a new entry will possibly appear with reduced risk and with a relatively tight stop using the former low as a support and with the stop below the support level. Of course after the ROI makes a new signal X upward, additional confirmations will be needed to justify the entry.

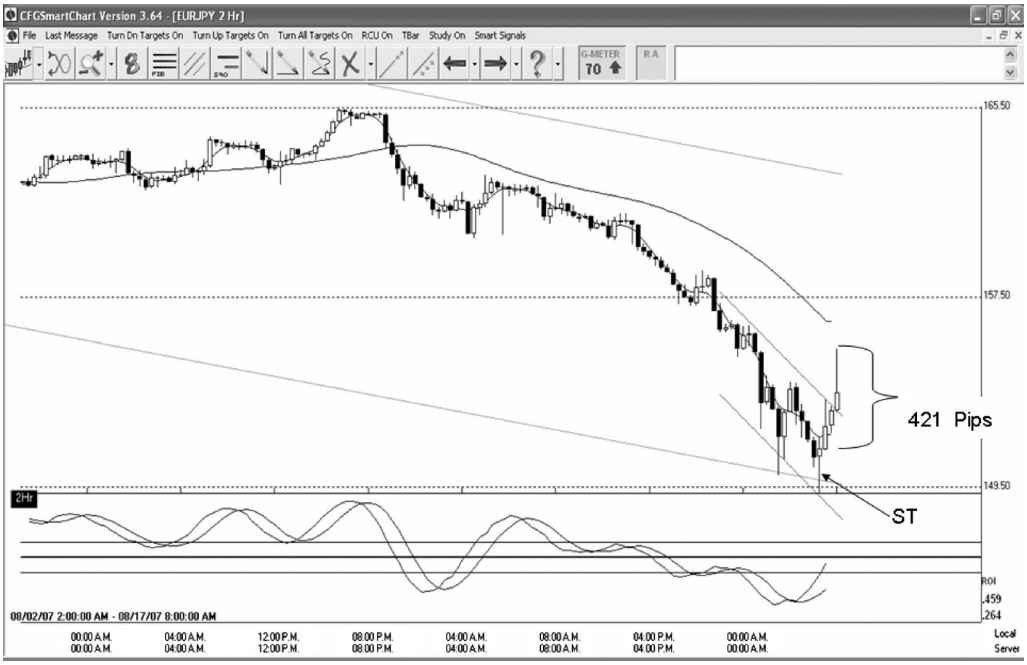

FIGURE B.3 EURJPY ST: Although the 421-pip move that followed the illustrated ST was in agreement with the ROI, the real lesson may be the ST found at the top of this two-hour chart on the bottom side of the market, just before the lengthy fall. Look closely and see if you can see the unmarked ST. It is pointed down and is very long—implying the market is ready to move upward—but the currency moved downward. If you look closely, you will see down below that the ROI is moving down and not up, which is not in agreement with the implied future direction of the market. Therefore, this trade would not have been entered based on an ST. Some may say that there are other reasons to enter here; however, the focus of this book is safe entries and a methodology that encourages very selective trade entries.

FIGURE B.4 GBPJPY ST: This GBPJPY four-hour chart provides a lot more profit, it seems, than most combinations. Caution is needed when trading exotic combos such as the GBPJPY, because anomalies in the market may sometimes occur against entries very suddenly. Once traders experience one of these sudden events, they will understand the value of protective stops. In this particular illustration, the combo turned out to be very safe. Both the ROI and the river line—represented by the top line in the candles or slow average—are in agreement with the direction of the trade. Notice that the auto trend lines were pointing the way as well. The return potential here is up to 379 pips per lot.

As an additional observation, notice that the ROI appears to be squeezing together as if ready to turn up. This implies that the trader should consider exiting the bear trade and prepare for a new bull entry if additional confirmations are present to justify the entry.

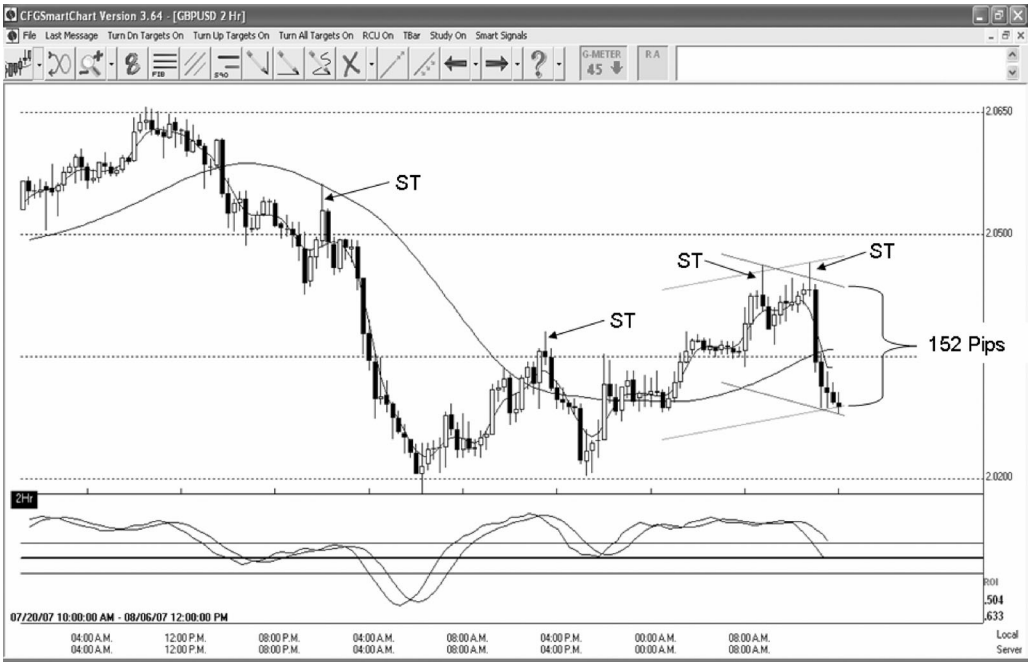

FIGURE B.5 GBPUSD ST: This two-hour chart has four STs present that either were in agreement for the entry with the next opening candle, or eventually became in agreement, allowing for an entry. Remember, waiting is a good thing—if it means you are reducing risk. Waiting for the ROI to be in agreement with the trade direction is worth it. As a review from earlier entry comments, when an ST appears, the market entry will be in the opposite direction and must have an ROI in agreement. The larger the time compression, the greater the odds of success. Notice on the illustration that the last ST ran approximately 152 pips.

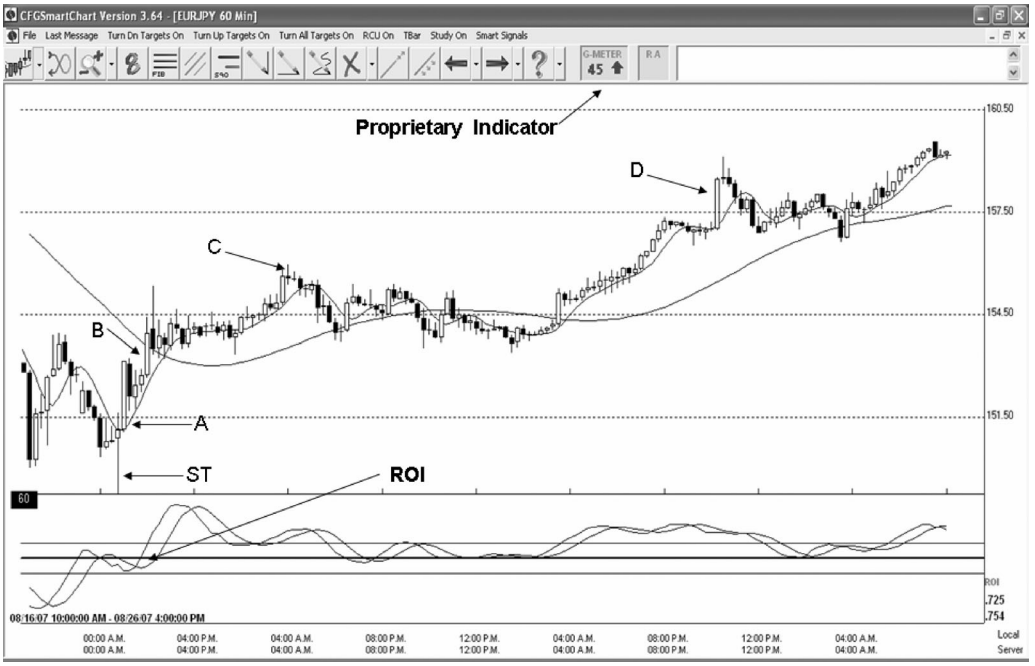

FIGURE B.6 EURJPY ST: This 60-minute chart illustrates an example of how the three-trade entry approach is most effective. The ST is identified. The ROI has crossed up and is in agreement with the direction of the trade. We also have a proprietary indicator telling us that buys are preferred over sells. The entry of the ST trade is the open of the candle to the right of the ST candle, which is point A. Some traders will enter three separate trades at the same time. Point B indicates the close of trade 1. Some traders will close the trade with only 20 or so pips of profit.

Point C represents the close of trade 2 because of signs of a reversal. Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit. Some traders wait to see if a River X forms before closing out trade 3. By not having a limit set on trade 3, this allows the trader to take advantage of large runs in the market and over 1,000 pips.

The challenge in entering a long-term trade in order to take 1,000 pips from the market is that it requires a lot of patience and confidence in the direction of the trade. As mentioned earlier in the book, one of the issues a trader must recognize and control is that it is very easy to stay in a bad trade but very hard to stay in a good trade.

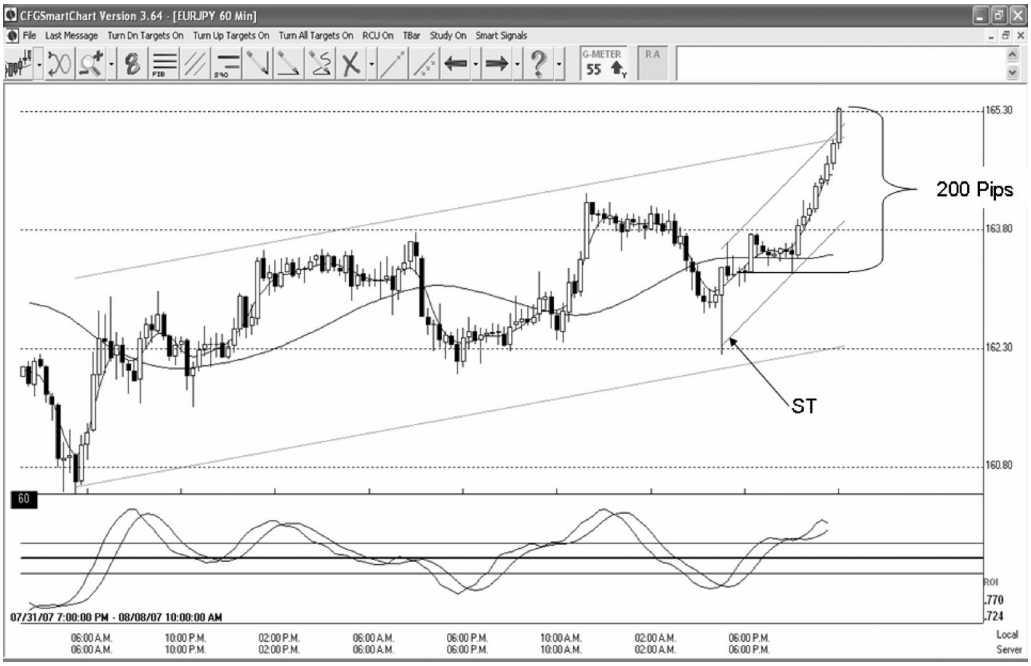

FIGURE B.7 EURJPY ST: This 60-minute chart shows a perfect ST where the ROI becomes in agreement almost immediately and the market then moves upward approximately 200 pips. The ROI is beginning to curl downward, which is a sign to consider either tightening the stop to capture as much profit as possible or just exiting the trade.

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G-METER
45
R A
ST
121 Pips
122.40
121.90
120.90
30
ROI
.475
.621
07/18/07 3:30:00 AM - 07/22/07 9:30:00 PM
09:00 A.M. 05:00 P.M. 01:00 A.M. 09:00 A.M. 05:00 P.M. 01:00 A.M. 09:00 A.M. 05:00 P.M.
Local Server

FIGURE B.8 USDJPY ST: This 30-minute chart illustrates a perfect ST with ROI agreement. The entry is the next candle open after the ST. When STs occur, there are usually many other confirmations to justify the entry.

This illustration demonstrates a market move of 121 pips. One would assume that a trader could surely obtain profits from a move as illustrated.

Although the illustration is clear regarding the 121-pip ST potential that is marked, look at the unmarked ST that occurred previous to the marked illustration. Notice that the move was delayed until the ROI began to move up after it was crossed.

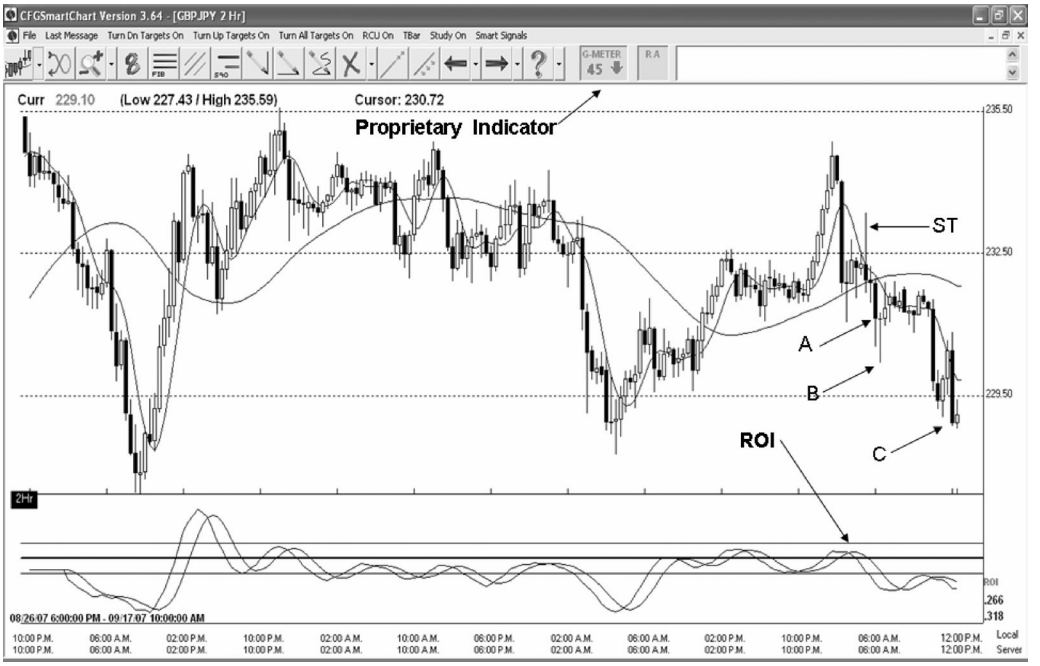

FIGURE B.9 GBPJPY ST: This two-hour chart offers another example of how the three-trade entry approach is most effective. The ST is identified. The ROI has crossed down and is in agreement with the direction of the trade. We also have a proprietary indicator located at the top of the chart telling us that sells are preferred over buys.

The entry of the ST trade is the open of the candle to the right of the ST candle. Some traders will enter three separate trades at the same time. Point A represents the close of trade 1. Traders will close the trade with only 20 or so pips of profit. To the immediate right of the entry candle is a River X. This tells us that it is a good idea to remain in the trade for additional potential profits.

Point B indicates the first sign of a reversal on smaller compressions. This is due to a pullback that is forming a possible ST for the up market. Trade 2 is closed. Regarding the trade 2 exit, the ROI continues to bear down, which would normally mean that trade 2 was exited prematurely; however, the objective of the trade 2 entry is to exit the trade at the first sign of trouble.

Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit or 0 (even), and as the reader can see, the combo never comes back to the original entry point. Instead, the third entry moves down considerably to point C. Point C shows where trade 3 could be closed. Another option at point C is to lock in more profits. A larger compression than this two-hour chart might tell us if more profits are possible. By not setting a limit on trade 3, the trader can take advantage of large runs in the market.

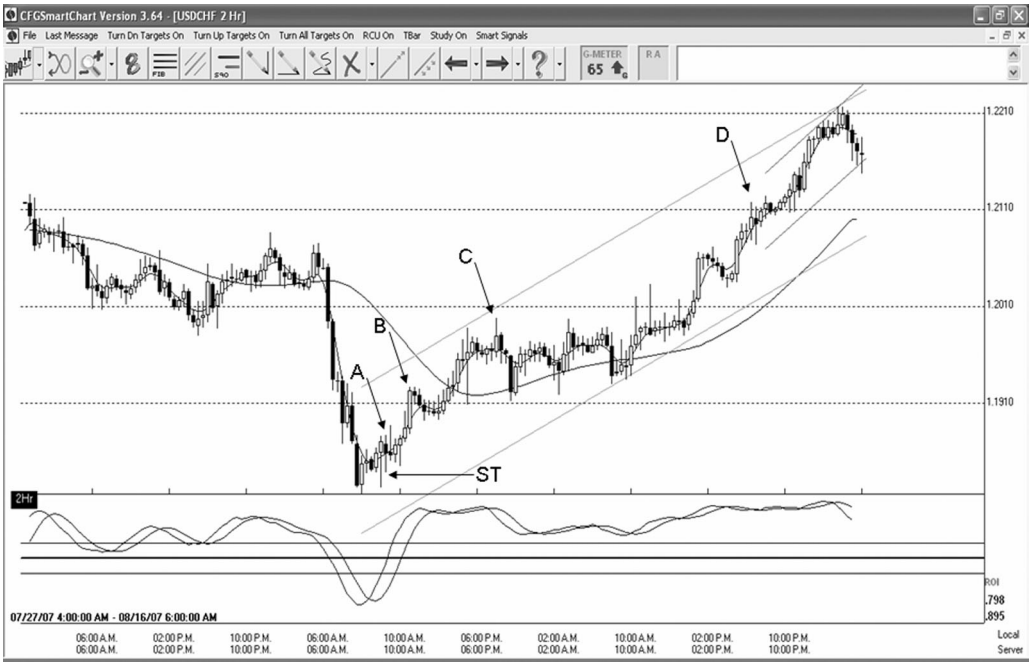

FIGURE B.10 USDCHF ST: Here is another example of how the three-trade entry approach is most effective. The ST is identified. The ROI has crossed up and is in agreement with the direction of the trade. The ROI was not strong enough as a stand-alone reason to enter the market. The delayed ST that appeared after the ROI crossed up provides us with a confirmation to enter the trade. The two-hour SmartChart also has a proprietary indicator found at the top of the chart called the G-meter, which indicates possible direction of market; it also is in agreement with the ST and ROI direction, and all of these are confirmations to trade up.

Point A represents the entry points. Here we are viewing a three-entry trade plan. Trade 1 has a 20-pip limit. Point B indicates where the 20 pips of profit were achieved. Point C indicates where trade 2 is closed on the first signs of a reversal.

Trade 2 provided over 45 pips of profit.

Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit. Point D indicates where the temporary reversal ends. By not having a limit set on trade 3, the trader is able to take advantage of large runs in the market. When the combo finally reaches the upper trend wall for a strike, notice that the market bounces off of the trend wall and causes the ROI to begin widening downward, indicating where either trade 3 should be closed or the stop should be tightened to maximize profits.

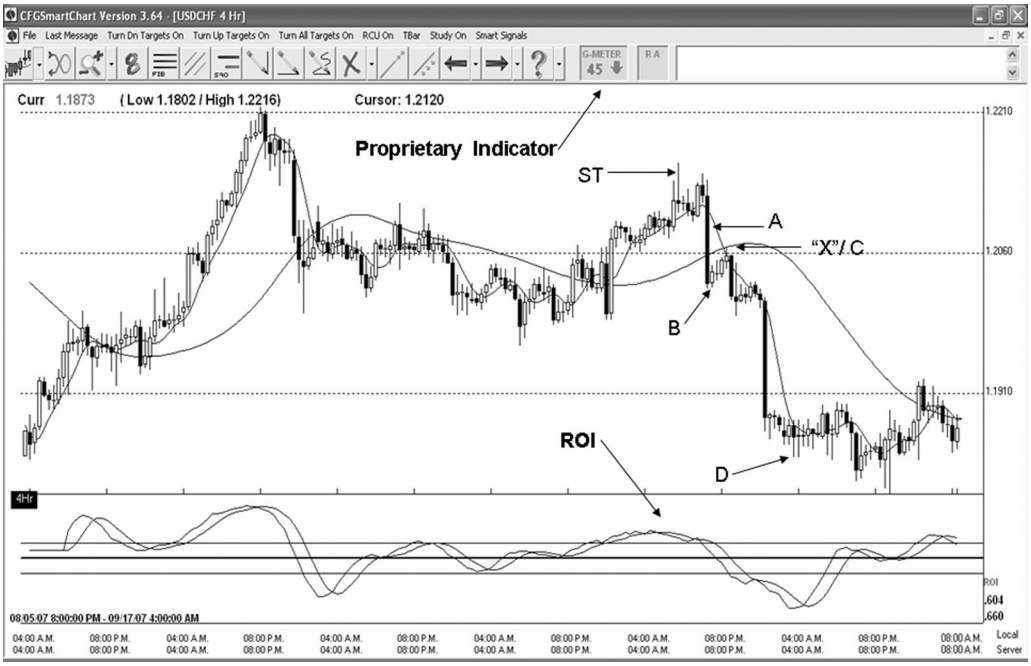

FIGURE B.11 USDCHF ST: Here is another example of how the three-trade entry approach is most effective. In this four-hour chart the ST is identified. The ROI has crossed down and is in agreement with the direction of the trade. We also have a proprietary indicator telling us that sells are preferred over buys.

Point A is the close of trade 1 with only 20 pips of profit. Trade 1 had a 20-pip limit under the rules of this three-entry strategy.

Point B indicates a possible reversal in the market. Trade 2 is closed at the first sign of a reversal, with over 40 pips of profit.

Point C indicates a River X where some traders may stay with their third trade. Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit. By not having a limit set on trade 3, the trader can take advantage of large runs in the market. Point D indicates where trade 3 was closed because the ROI gave a bull X cross, which implies a possible reversal. An alternative close is to tighten the stop and allow the market to exit the trade naturally. The only benefit to this natural type of close is that the market may not exit the trade and could continue on with its bearish move, allowing even greater profits.

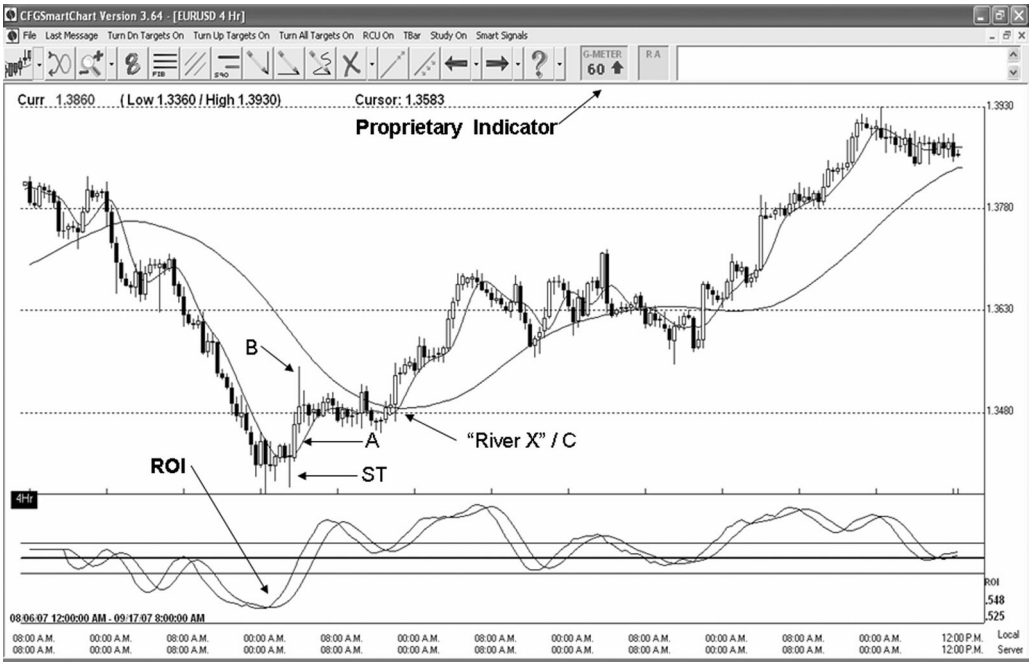

FIGURE B.12 EURUSD ST: Here is another example of how the three-trade entry approach is most effective. In this four-hour chart the ST is identified. The ROI has crossed up and is in agreement with the direction of the trade. (Note: It does not matter which signal comes first; what is important is that both are in agreement. Only then can a trader look for additional reasons to enter before making the final decision to risk money in the markets.) We also have a proprietary indicator telling us that buys are preferred over sells. The entry of the ST trade is the open of the candle to the right of the ST candle. Using the three-trade entry strategy, a trader may consider entering three separate trades at the same time—at the open of the first candle after the ST. (Larger compressions with an ST have been found to have better odds of a successful or profitable trade entry.)

Point A represents the close of trade 1. Some traders will close the trade with only 20 or so pips of profit. Point B indicates the first signs of a reversal on smaller compressions, and trade 2 is closed. Point C is a River X—a sign for some traders to remain in the trade for additional profits that the market may offer. Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit. By not having a limit set on trade 3, the trader can take advantage of large runs in the market. This chart illustrates that the market has moved over 500 pips.

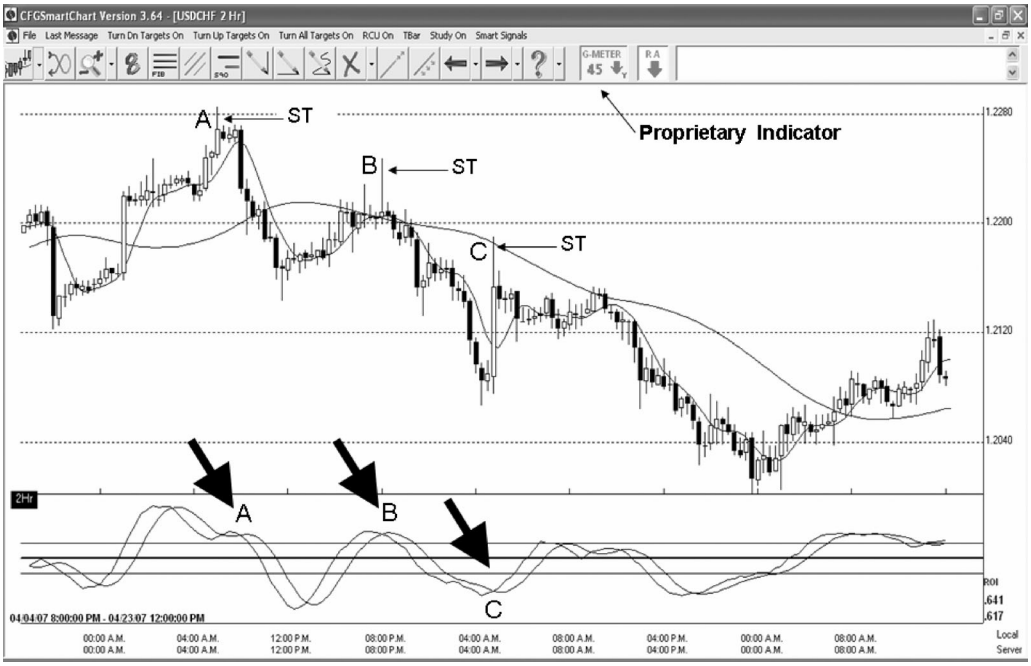

FIGURE B.13 USDCHF ST: Here is another example of the three-trade entry approach. In this two-hour chart the STs are indicated by points A, B, and C. We also have a proprietary indicator telling us that sells are preferred over buys. The position of the ROI plays a major role in deciding if a trade should be entered. Points A and B have the ROI crossed to go down—in agreement with the trade. Point C has the ROI in the wrong direction. STs A and B are the two safest trades, and an experienced selective trader would pass on ST C even though if would have paid a profit. The lack of a proper confirmation, combined with a trader's inability to tell the future, means ST C's increased risk does not justify an entry. The key is to select safe trades and pass up the not-so-safe trades.

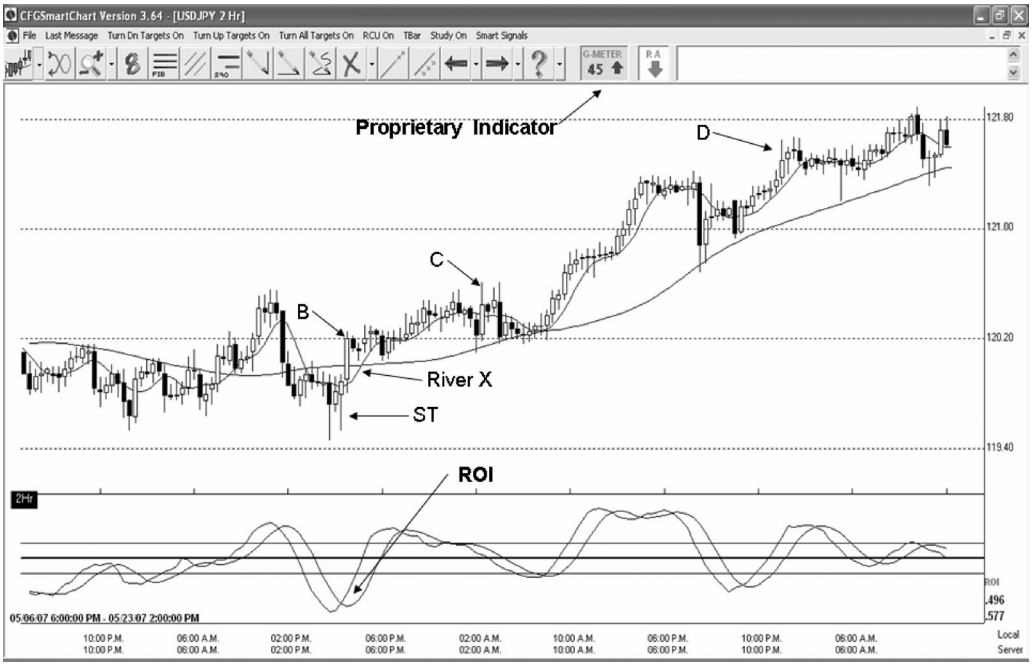

FIGURE B.14 USDJPY ST: Here is another example of the three-trade entry approach. In this two-hour chart the ST is identified. The ROI has crossed up and is in agreement with the direction of the trade. The proprietary indicator is also telling us that buys are preferred over sells. The entry of the ST trade is the open of the candle to the right of the ST candle. Some traders will enter three separate trades at the same time.

Point B indicates the close of trade 1. Some traders will close a trade with only 20 or so pips of profit.

Point C represents the close of trade 2—closed on signs of a reversal.

Trade 3 is still open, but the stop has moved up to lock in 1 pip of profit. By not having a limit set on trade 3, the trader can take advantage of large runs in the market—in this case over 200 pips.

Point D is a level to consider exiting or tightening the stop to maximize profits. If there are larger time compressions available to determine if the market is going to continue upward, traders may consider not exiting at point D. Whether to exit or remain in a trade should be based on additional confirmations taken from larger time compressions if all other confirmations have been exhausted.

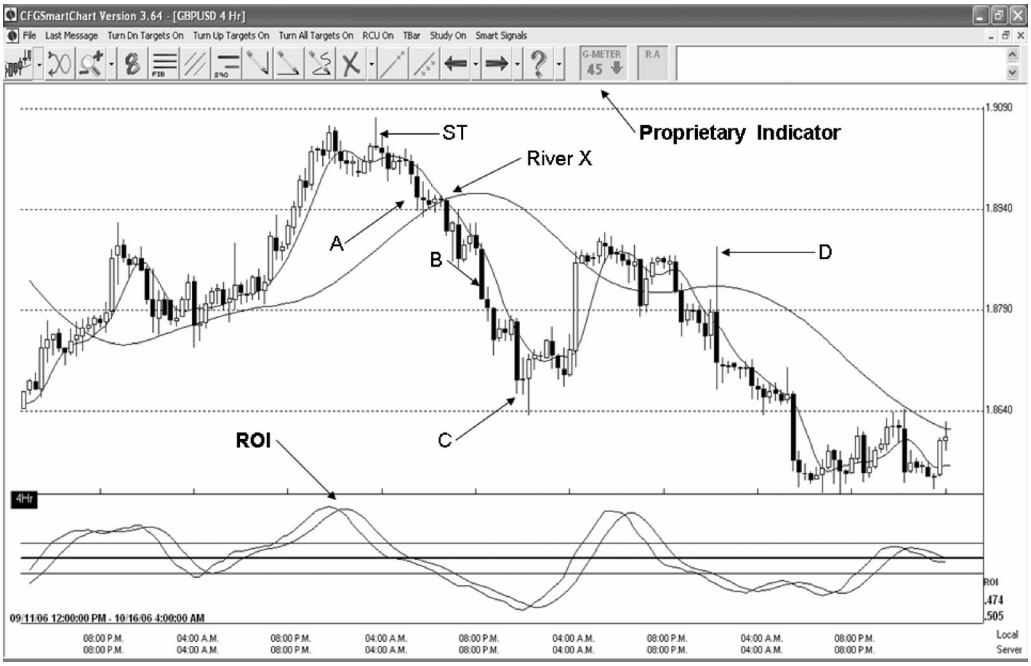

FIGURE B.15 GBPUSD ST: This example is interesting in that after the trade has started, additional ST entry opportunities begin appearing. The three-trade entry approach becomes very effective when recurring ST entry opportunities appear.

In this four-hour chart the ST is identified. The ROI has crossed down in agreement with the direction of the trade. Also, the proprietary indicator is telling us that sells are preferred over buys. The entry of the ST trade is the open of the candle to the right of the ST candle. Some traders will enter three separate trades at the same time.

Point A indicates the close of trade 1. Most traders will close the trade with only 20 or so pips of profit. Shortly after point A, a River X is formed. Some traders take advantage of a river X and stay in the trade longer, anticipating more profit.

Point B represents the close of trade 2.

Trade 3 is still open, but the stop has moved up to lock in 1 pip of profit. Point C represents the beginning of a reversal in the market. After the reversal is over a new River X is formed. After the new River X a second ST is also formed at point D. By not having a limit set on trade 3, the trader can take advantage of large runs in the market—in this case over 500 pips.

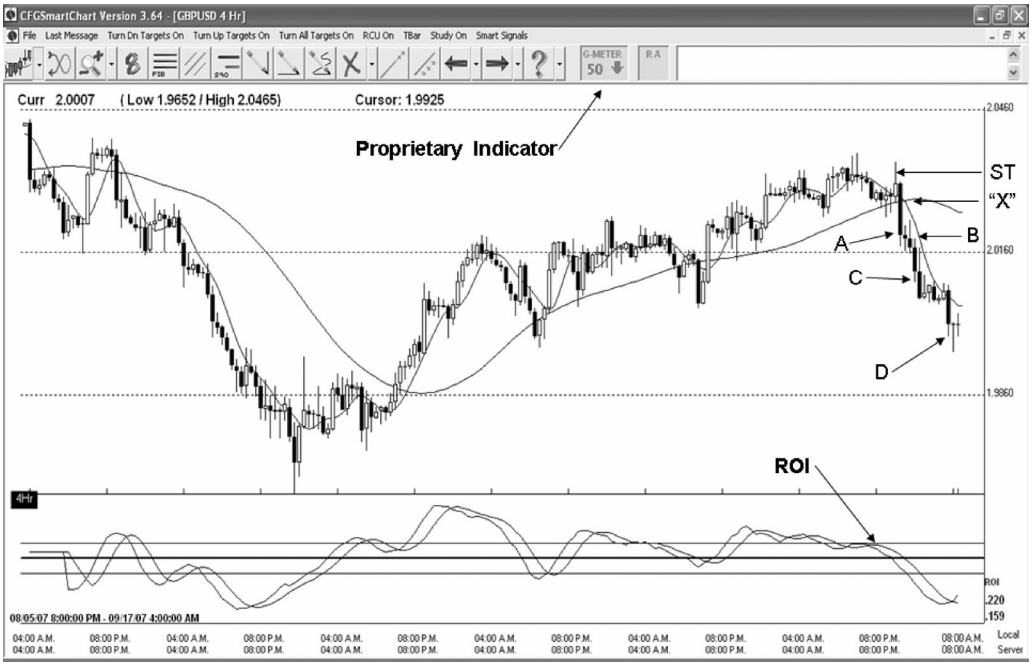

FIGURE B.16 GBPUSD ST: Here is another example of the three-trade entry approach. In this four-hour chart the ST is identified. The ROI has crossed down and is in agreement with the direction of the trade. Also, the proprietary indicator is telling us that sells are preferred over buys. The entry of the ST trade is the open of the tall black candle to the right of the ST candle.

Point A represents the close of trade 1. Even though the tall black candle is over 100 pips, many traders will close the trade with only 20 or so pips of profit. To the immediate right of the tall black candle is a River X. This is sign to remain in the trade for additional profits that may be provided.

Point B indicates where another entry is possible because of the River X.

Point C indicates where trade 2 is closed on the first signs of a reversal on smaller compressions. Trade 2 provided over 150 pips of profit.

Trade 3 is still open, but the stop is moved up to lock in 1 pip of profit. Point D shows where trade 3 is closed. The ROI has crossed up at this time. By not having a limit set on trade 3, the trader can take advantage of large runs in the market.

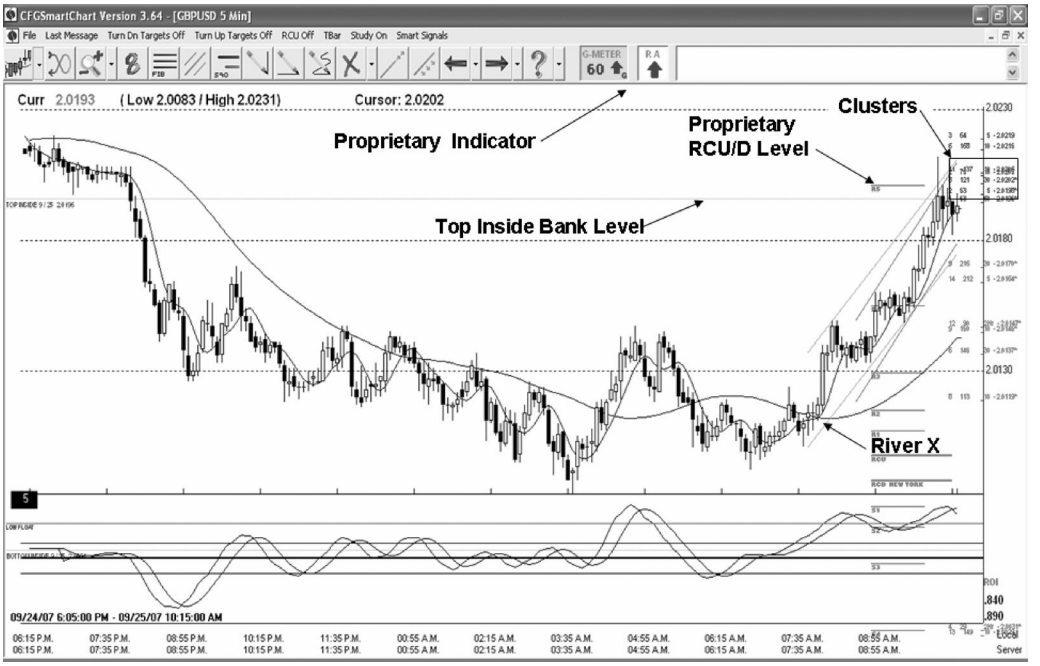

FIGURE B.17 In every trade, the more confirmations present before entering the trade, the better. For example, within the GBPUSD five-minute chart the first confirmation is the proprietary indicator, which has an up arrow, indicating buys are more favorable than sells. Next, take a look at what SmartCharts refers to as the bank level. The first bank level illustrated on the chart is identified as a top inside, level, which is the top side of a inner channel within a given historical range.

Next, look at another SmartChart proprietary indicator: the RCU/D level. In this example the R5 level is right above the top inside bank level, adding strength to this level for the market. Another proprietary indicator to consider is the target. When there are multiple targets in the same area, we refer to them as a cluster. Clusters in the market are often made up of fresh targets or are conglomerated with other valuable historical levels. In this example the clusters are inside a box that was added to the picture for demonstration purposes only. The bottom of the clusters box sits exactly on the top inside bank level. This is just one more confirmation that solidifies this as a strong area for the market to reach.

As an additional observation for a future bear trade, when the market finally reaches the bull target as illustrated and the ROI crosses down on a larger compression, it is time to look for other bear confirmations to appear. The five-minute ROI curl that is illustrated is not enough to justify an entry unless several other time compressions are in agreement with the possible bear entry.

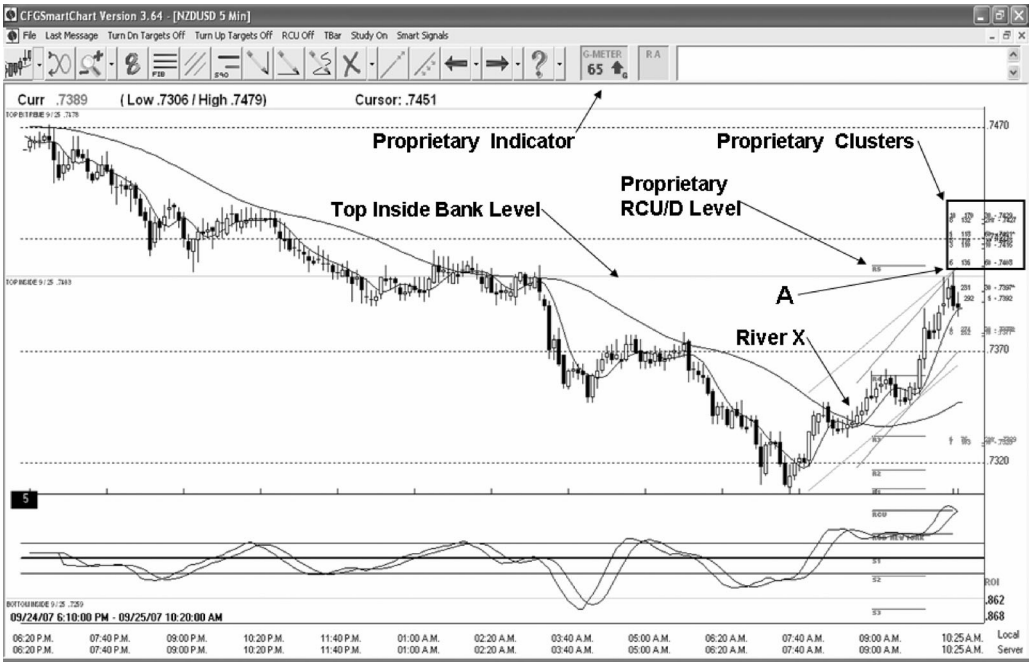

FIGURE B.18 The NZDUSD five-minute chart displays a River X trade. As always, the more confirmations, the better the trade. The first confirmation is the proprietary indicator, which has an up arrow indicating buys are more favorable than sells. This market directional arrow is found at the top of the SmartChart. The first indicator to consider is the first bank level. In this example this is a top inside bank level.

Another proprietary indicator is the RCU/D level. In this example the R5 level is just above the top inside bank level, adding strength to this level for the market to reach.

Finally, we can consider the SmartCharts targets. When there are multiple targets in the same area we refer to them as a cluster within the market. In this example the clusters are found inside a box that was added to the picture for demonstration purposes. The bottom of the clusters box sits exactly on the R5 level. This is just one more confirmation that solidifies this as a likely level for the market to reach. Point A shows that the market reached the R5, the bottom of the clusters box, and the top inside bank level. This River X trade provided over 50 pips of profit. The best trades have more than one confirmation.

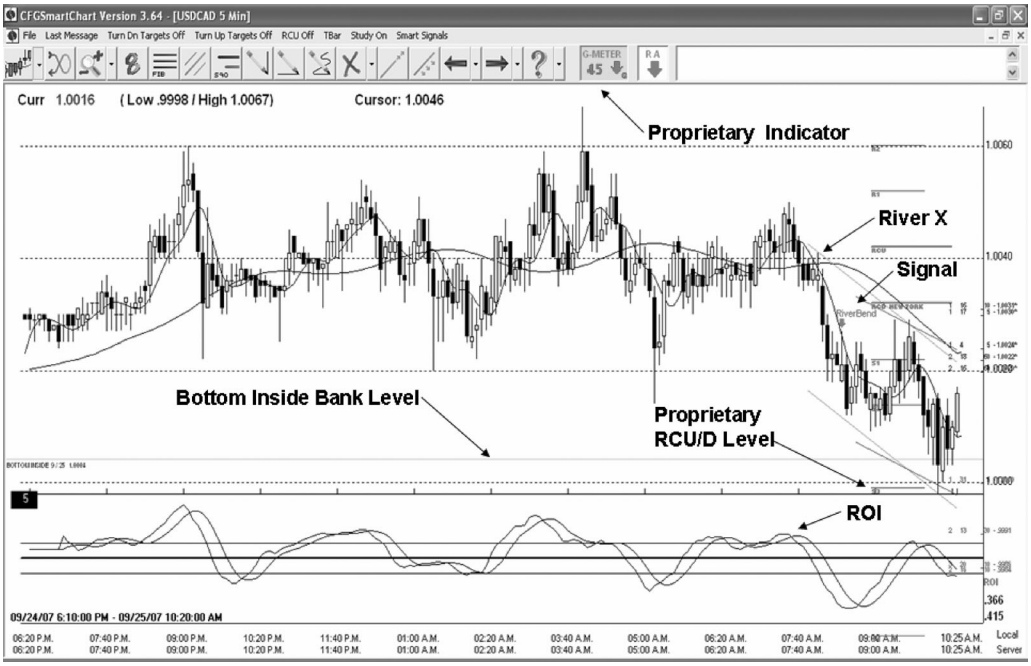

FIGURE B.19 The USDCAD five-minute chart displays a bear entry as a River X trade. As stated in other cluster illustrations, the more confirmations, the better the trade. The first confirmation is the proprietary indicator, which has a down arrow indicating sells are more favorable than buys. The first area of interest that the market may move toward is the first bank level. In this example this is the bottom inside bank level.

The next indicator to consider is the RCU/D level. In this example the S3 level is right below the bottom inside bank level, adding strength to the potential for the market to reach this level.

The ROI had just crossed down at the time of the River X, supplying one more confirmation for the sell.

Because the proprietary indicators are all pointed down, the S3 level is very close to the bottom inside wall, and the ROI crossed down at the time of the trade, a trader can enter into this position with confidence. This River X trade provided the trader with 40 pips of profit.